

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6674

BILL NUMBER: SB 226

NOTE PREPARED: Dec 31, 2011

BILL AMENDED:

SUBJECT: School Corporation Financial Management.

FIRST AUTHOR: Sen. Miller

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
☐ **FEDERAL**

IMPACT: State & Local

Summary of Legislation: *Waivers:* This bill requires a school corporation that has provided school bus service to students to continue the bus service unless the Department of Education grants the school corporation a waiver.

Advertising: The bill requires the State School Bus Committee to adopt rules that permit paid advertisements on buses.

Distressed Schools: The bill establishes the Financially Distressed School Corporation Appeals Board to evaluate and authorize emergency relief to school corporations that the board determines are unable to carry out their public education responsibilities. It establishes the Distressed School Fund. The bill permits a loan or advance from the Counter-Cyclical Revenue and Economic Stabilization Fund, the Distressed School Fund, or the Common School Fund to a distressed school corporation.

General Fund Transportation: The bill permits money in a school general fund to be used, in addition to any money in a school transportation fund, to pay costs attributable to transportation.

Common School Fund: The bill permits a loan from the Common School Fund for costs attributable to transportation.

Effective Date: Upon passage.

Explanation of State Expenditures: *Waivers:* The state could incur some costs in processing waivers for school transportation by local schools. The impact would depend on the number of waivers that are

requested. The Department of Education is also required to hold a public hearing on the waiver at the school corporation requesting the waiver. The fiscal impact is probably minor.

Advertising: The adoption of rules permitting paid advertisements on buses by the State School Bus Committee should have no fiscal impact on the state. The School Bus Committee is a 13-member committee; 9 of the members are voting and 4 are nonvoting members.

Distressed Schools: The bill creates the Financially Distressed School Corporation Appeals Board. The Board would consist of seven voting members. One member must be a school superintendent and one must be a school business manager. The members are not eligible for per diem, but are eligible for travel expenses. The cost of the board should be minor. The first meeting must be held before July 1, 2012, and then annually in January of each year. Department of Education (DOE) is to staff and pay the expenses of the board.

The board is required to establish criteria for determining whether a school corporation qualifies for emergency financial relief. The board may consider the following information in determining if the school meets the criteria for emergency financial relief:

1. Failed general fund or property tax cap referendums.
2. Declining school enrollment.
3. Declining assessed valuation.
4. Increased class size.
5. Property tax circuit breaker impact.
6. Delayed payments to vendors.
7. Reductions in school corporation staff.
8. Efficiencies in energy use, purchasing, or other expenditures categories.
9. Impact of outsourcing services.
10. Declining state support dollars per student.
11. Indebtedness.
12. Other information determined by the board.

The board would work with the school corporation in developing a plan to resolve the financial difficulties. The plan could include:

1. An interest-free loan from the Counter-Cyclical Revenue and Economic Stabilization Fund, the Common School Fund, or the Distressed School Fund.
2. Authorization to use unobligated reserves or other balances in construction, sinking, bond, or debt service funds to the extent permitted under school agreements with bond holders.
3. Authorization to make interfund transfers from any fund.

The bill creates the Distressed School Fund to make loans to distressed schools. The fund consists of appropriations by the General Assembly, gifts, and repayment of loans. Currently, there is no money in the fund.

State Board of Finance: The bill allows the State Board of Finance to approve a loan to a financially distressed school corporation in an amount not to exceed the amount recommended by the Financially Distressed School Corporation Appeals Board.

Background: The Common School Fund as of June 30, 2011, had an unobligated balance of about \$127.9 M, and the Counter-Cyclical Revenue and Economic Stabilization Fund had a balance of \$57.2 M.

Explanation of State Revenues: *Distressed Schools:* The bill could reduce state interest revenue, since the loans to distressed schools are to be interest-free.

Common School Fund: The bill would permit loans from the Common School Fund to schools for transportation costs. The loan is interest-free and for a period of 10 years. The bill could reduce state interest revenue, since the loans to distressed schools are to be interest-free. The Common School Fund as of December 1, 2011, had 210 construction loans worth about \$457.8 M, another 372 technology loans worth \$72.4 M, and 200 charter school loans worth \$75.6 M. Some schools may have more than one loan.

Explanation of Local Expenditures: *Waivers:* The waiver process might make it more difficult for a school corporation to terminate their student transportation services. For FY 2011, schools spent about \$522.4 M from their transportation funds.

General Fund Transportation: The bill would allow schools to pay for transportation expenditures from the school general fund. The bill would increase a school's flexibility to fund transportation. As of December 30, 2010, schools had an operating balance of about \$674.4 M in their general funds.

Distressed Schools: The bill would increase the administrative oversight of a distressed school and possibly reduce expenditures. A distressed school would require the Financially Distressed School Corporation Appeals Board approval before they are allowed to:

1. Acquire real property for school building purposes.
2. Construct new school buildings, remodel, or renovate existing school buildings.
3. Incur contractual obligations (except to replace a current employee) that require an expenditure of more than \$10,000.
4. Purchase or enter into an agreement to purchase personal property that costs more than \$10,000.
5. Adopt or advertise a budget, tax levy, or tax rate for an ensuing budget year.

Explanation of Local Revenues: *Advertising:* Allowing advertising on school buses could increase local school revenue for transportation. There are about 10,500 school buses owned by school corporations and about 2,500 school buses that are contracted for services.

Distressed Schools: The bill could increase the short-term revenue for local schools through loans from the state than would have to be repaid in the future. The bill could also increase general fund revenue by allowing transfers from other funds to the school general fund.

Common School Fund: The bill would permit loans to schools from the state Common School Fund for transportation costs. The loans are to be interest-free and for a period of 10 years.

State Agencies Affected: Department of Education; State Board of Finance.

Local Agencies Affected: Local schools.

Information Sources:

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